UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period ended September 30, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File No. 001-33601

GlobalSCAPE, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**74-2785449** **(I.R.S. Employer Identification No.)**
4500 Lockhill-Selma, Suite 150 **San Antonio, Texas** **(Address of Principal Executive Office)**	**78249** **(Zip Code)**

(210) 308-8267
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

As of October 31, 2016, there were 21,145,021 shares of common stock outstanding.

GlobalSCAPE Inc.
Quarterly Report on Form 10-Q
For the Quarter ended September 30, 2016

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Part I. Financial Information

Item 1. Financial Statements

GlobalSCAPE, Inc.
Condensed Consolidated Balance Sheets
(in thousands except share amounts)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 17,421	$ 15,885
Short term investments	3,303	3,254
Accounts receivable (net of allowance for doubtful accounts of $335 and $325 in 2016 and 2015, respectively)	8,870	6,081
Federal income tax receivable	104	290
Prepaid and other expenses	425	511
Total current assets	30,123	26,021
Property and equipment, net	463	498
Capitalized software development costs, net	3,961	3,982
Goodwill	12,712	12,712
Deferred tax asset, net	976	940
Other assets	30	60
Total assets	$ 48,265	$ 44,213
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 622	$ 839
Accrued expenses	1,841	1,893
Deferred revenue	13,005	12,000
Income taxes payable	517	127
Total current liabilities	15,985	14,859
Deferred revenue, non-current portion	3,688	3,612
Other long term liabilities	34	44
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.001 per share, 10,000,000 authorized, no shares issued or outstanding	-	-
Common stock, par value $0.001 per share, 40,000,000 authorized, 21,548,602 and 21,383,467 shares issued at September 30, 2016, and December 31, 2015, respectively	21	21
Additional paid-in capital	20,632	19,583
Treasury stock, 403,581 shares, at cost, at September 30, 2016 and December 31, 2015	(1,452)	(1,452)
Retained earnings	9,357	7,546
Total stockholders' equity	28,558	25,698
Total liabilities and stockholders' equity	$ 48,265	$ 44,213

The accompanying notes are an integral part of these condensed and consolidated financial statements.

GlobalSCAPE, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income
(In thousands, except per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Operating Revenues:				
Software licenses	$ 3,373	$ 2,852	$ 8,565	$ 8,590
Maintenance and support	4,713	4,142	13,843	12,269
Professional services	667	653	2,013	1,531
Total Revenues	8,753	7,647	24,421	22,390
Cost of revenues				
Software licenses	873	562	2,303	1,651
Maintenance and support	363	341	1,145	1,057
Professional services	534	605	1,689	1,257
Total cost of revenues	1,770	1,508	5,137	3,965
Gross profit	6,983	6,139	19,284	18,425
Operating expenses				
Sales and marketing	2,759	2,289	8,453	7,060
General and administrative	1,638	1,449	5,083	4,629
Research and development	528	646	1,727	1,832
Total operating expenses	4,925	4,384	15,263	13,521
Income from operations	2,058	1,755	4,021	4,904
Other income	28	17	88	51
Income before income taxes	2,086	1,772	4,109	4,955
Income tax expense	687	542	1,348	1,585
Net income	$ 1,399	$ 1,230	$ 2,761	$ 3,370
Comprehensive income	$ 1,399	$ 1,230	$ 2,761	$ 3,370
Net income per common share -				
Basic	$ 0.07	$ 0.06	$ 0.13	$ 0.16
Diluted	$ 0.06	$ 0.06	$ 0.13	$ 0.16
Weighted average shares outstanding:				
Basic	21,122	20,892	21,061	20,782
Diluted	21,674	21,440	21,640	21,294
Cash dividends declared per share	$ 0.015	$ 0.015	$ 0.045	$ 0.030

The accompanying notes are an integral part of these condensed and consolidated financial statements.

GlobalSCAPE, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	For the Nine Months Ended September 30, 2016	2015
Operating Activities:		
Net income	$ 2,761	$ 3,370
Items not involving cash at the time they are recorded in the statement of operations:		
Bad debt expense	67	147
Depreciation and amortization	1,522	1,116
Share-based compensation	721	482
Deferred taxes	(36)	(320)
Excess tax benefit from share-based compensation	5	(49)
Subtotal before changes in operating assets and liabilities	5,040	4,746
Changes in operating assets and liabilities:		
Accounts receivable	(2,856)	(1,690)
Prepaid expenses	86	154
Deferred revenue	1,081	531
Accounts payable	(217)	(757)
Accrued expenses	(52)	10
Other Assets	30	37
Other long-term liabilities	(10)	(5)
Income tax receivable and payable	571	403
Net cash provided by operating activities	3,673	3,429
Investing Activities:		
Software development costs capitalized	(1,298)	(1,613)
Purchase of property and equipment	(168)	(108)
Interest reinvested in short and long term investments	(49)	(48)
Net cash (used in) investing activities	(1,515)	(1,769)
Financing Activities:		
Proceeds from exercise of stock options	333	417
Excess tax benefit from share-based compensation	(5)	49
Dividends paid	(950)	(626)
Net cash (used in) financing activities	(622)	(160)
Net increase in cash	1,536	1,500
Cash at beginning of period	15,885	11,358
Cash at end of period	$ 17,421	$ 12,858
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ 776	$ 1,341

The accompanying notes are an integral part of these condensed and consolidated financial statements.

GlobalSCAPE, Inc.
Notes to Condensed Consolidated Financial Statements
As of September 30, 2016 and For the Three and Nine Months Then Ended
(Unaudited)

1. Nature of Business

We develop and sell computer software that provides secure information exchange, file transfer and file sharing capabilities for enterprises and consumers. Our primary business is selling and supporting managed file transfer, or MFT, software for enterprises. The brand name of our MFT product platform is Enhanced File Transfer, or EFT. We also sell other products that are synergistic to EFT including Mail Express, scConnect, WAFS, and CuteFTP.

We earn most of our revenue from the sale of EFT and products that are part of our EFT platform. We earn revenue from the sale of perpetual software licenses, providing products under software-as-a-service, or SaaS, subscriptions, providing maintenance and support services, or M&S, and offering professional services for product customization and integration.

Throughout these notes unless otherwise noted, our references to the 2016 quarter and the 2015 quarter refer to the three months ended September 30, 2016 and 2015, respectively. Our references to the 2016 nine months and the 2015 nine months refer to the nine months ended September 30, 2016 and 2015, respectively.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X, "Interim Financial Statements", as prescribed by the Securities and Exchange Commission, or SEC. Accordingly, they do not include all information and footnotes required under generally accepted accounting principles in the United States, or GAAP, for complete financial statements. In the opinion of management, all accounting entries necessary for a fair presentation of our financial position and results of operations have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year. The information included in this Form 10-Q should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which we refer to as the 2015 Form 10-K, as well as *Management's Discussion and Analysis of Financial Condition and Results of Operations* also included in our 2015 Form 10-K and in this report.

We follow accounting standards set by the Financial Accounting Standards Board. This board sets GAAP that we follow in preparing financial statements that report our financial position, results of operations, and sources and uses of cash. We also follow the reporting regulations of the United States Securities and Exchange Commission, or SEC.

The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of our financial statements. It is possible the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of our financial position and results of operations.

3. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements of GlobalSCAPE, Inc. and its wholly-owned subsidiary (collectively referred to as the "Company" or "we") are prepared in conformity with GAAP. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

We develop, market and sell software products. We recognize revenue from a sale transaction when the following conditions are met:

- Persuasive evidence of an arrangement exists.
- Delivery has occurred or services have been rendered.
- The amount of the sale is fixed or determinable.
- Collection of the sale amount is reasonably assured.

For a sale transaction not meeting any one of these four criteria, we defer recognition of revenue related to that transaction until all the criteria are met.

We earn the majority of our software license revenue from software products sold under perpetual software license agreements. At the time our customers purchase these products, they typically also purchase a product maintenance and support, or M&S, agreement. These transactions are multiple element software sales for which we assess the presence of vendor specific objective evidence ("VSOE") of the fair value of the undelivered elements to determine the portion of these sales to recognize as revenue upon delivery of the software product and the portion of these sales to record as deferred revenue at the time the product is delivered. We amortize the deferred revenue component to revenue in future periods as we deliver the related future services to the customer. For transactions, if any, for which we cannot establish VSOE of the fair value of the undelivered elements, we initially record the entire transaction as deferred revenue and amortize that amount to revenue in future periods as we deliver the related future services to the customer.

Our deferred revenue consists primarily of revenue to be earned in the future as we deliver services under M&S agreements. We bill our customers in advance for M&S services and record accounts receivable and deferred revenue in the same amount at the time we issue an invoice. We commence recognition of the deferred revenue as revenue only after the M&S period begins.

For our products licensed and delivered under a SaaS transaction on a monthly or other periodic subscription basis, we recognize subscription revenue, including initial setup fees, on a monthly basis over the contractual term of the customer contract as we deliver our products and services. Amounts invoiced or paid prior to this revenue recognition are presented as deferred revenue until earned.

We provide professional services to our customers consisting primarily of software installation support, operations support and training. We recognize revenue from these services as they are completed and accepted by our customers.

We collect sales tax on many of our sales. We do not include sales tax collected in our revenue. We record it as a liability payable to taxing authorities.

Reclassification of Expenses

In preparing our financial statements for the year ended December 31, 2015, we revised the manner in which we present cost of revenues and other elements of our statement of operations in response to the changing nature of our business and the resulting differences in the scope and nature of certain expenses we incur.

Cost of Revenue

Cost of revenue was expanded from one line to three lines to correspond with the associated revenue classifications. Amortization of capitalized software development costs was moved from depreciation and amortization and included in the cost of license revenue. Other costs included in cost of license revenue are royalties we pay to use technology in our products that is developed by others and fees paid to third party service providers who support our cloud based and SaaS solutions. Cost of M&S revenue and cost of professional services revenue consist primarily of salaries and related personnel costs of our employees who deliver the related service to our clients. These costs were previously included in the general and administrative classification. Also included in the cost of professional services revenue are the fees of third party service providers.

Selling, General and Administrative

We separated selling, general and administrative expenses into two line items – sales and marketing and general and administrative.

Depreciation and Amortization

After reclassifying amortization of capitalized software development costs to cost of license revenue, the remaining depreciation and amortization costs were included in general and administrative expense and the depreciation and amortization line on our statement of operations was removed.

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Effect of the reclassifications

The reclassifications were between cost of revenues and operating expenses and had no effect on revenue, income from operations, net income or earnings per share. The following tables illustrate the effects of these reclassifications on previously reported amounts for the quarter and the nine months ended September 30, 2015 ($ in thousands):

	Quarter Ended September 30, 2015						
		Reclassification of Previously Reported Amounts					
	As Previously Reported	Cost of Revenues	Capitalized Software Cost Amortization	Personnel Costs	Depreciation	Selling, General & Administrative	As Now Reported
Operating Revenues:							
Software licenses	$ 2,852						$ 2,852
Maintenance and support	4,142						4,142
Professional services	653						653
Total revenues	7,647						7,647
Cost of Revenues:							
Software licenses		195	367				562
Maintenance and support				341			341
Professional services		263		342			605
Total cost of revenues	-						1,508
Gross profit	-						6,139
Operating Expenses							
Sales and marketing	-					2,289	2,289
General and administrative	-					1,449	1,449
Cost of Revenues	458	(458)					-
Selling, general and administrative	4,355			(683)	66	(3,738)	-
Research and development	646						646
Depreciation and amortization	433		(367)		(66)		-
Total operating expenses	5,892						4,384
Income from operations	1,755						1,755
Other income (expense), net	17						17
Income before income taxes	1,772						1,772
Income tax expense	542						542
Net income	$ 1,230						$ 1,230
Comprehensive income	$ 1,230						$ 1,230
Net income per common share -							
Basic	$ 0.06						$ 0.06
Diluted	$ 0.06						$ 0.06

	Nine Months Ended September 30, 2015						
		Reclassification of Previously Reported Amounts					
	As Previously Reported	Cost of Revenues	Capitalized Software Cost Amortization	Personnel Costs	Depreciation	Selling, General & Administrative	As Now Reported
Operating Revenues:							
Software licenses	$ 8,590						$ 8,590
Maintenance and support	12,269						12,269
Professional services	1,531						1,531
Total revenues	22,390						22,390
Cost of Revenues:							
Software licenses		739	912				1,651
Maintenance and support				1,057			1,057
Professional services		327		930			1,257
Total cost of revenues	-						3,965
Gross profit	-						18,425
Operating Expenses							
Sales and marketing	-					7,060	7,060
General and administrative	-					4,629	4,629
Cost of Revenues	1,066	(1,066)					-
Selling, general and administrative	13,472			(1,987)	204	(11,689)	-
Research and development	1,832						1,832
Depreciation and amortization	1,116		(912)		(204)		-
Total operating expenses	17,486						13,521
Income from operations	4,904						4,904
Other income (expense), net	51						51
Income before income taxes	4,955						4,955
Income tax expense	1,585						1,585
Net income	$ 3,370						$ 3,370
Comprehensive income	$ 3,370						$ 3,370
Net income per common share -							
Basic	$ 0.16						$ 0.16
Diluted	$ 0.16						$ 0.16

Cash and cash equivalents

Cash and cash equivalents includes all cash and highly liquid investments with original maturities of three months or less.

Short Term Investments

Short-term investments consist of certificates of deposit held with financial institutions with contractual maturity dates less than one year from the balance sheet date. The Company has the intent and ability to hold these investments until their maturity dates and therefore accounts for them as held-to-maturity. These certificates of deposit are stated at amortized cost, which approximates the fair value of these investments.

Property and Equipment

Property and equipment is comprised of furniture and fixtures, software, computer equipment and leasehold improvements which are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Furniture, fixtures and equipment have a useful life of five to seven years, computer equipment and software have a useful life of three years and leasehold improvements have a useful life that is the shorter of the term of the lease under which the improvements were made or the estimated useful life of the asset.

Expenditures for maintenance and repairs are expensed as incurred.

Goodwill

Goodwill is not amortized. On at least an annual basis, we test goodwill for impairment at the reporting unit level. We operate as a single reporting unit.

When testing goodwill, we first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of our reporting unit is less than its carrying amount, including goodwill. In performing this qualitative assessment, we assess events and circumstances relevant to us including, but not limited to:

- Macroeconomic conditions.
- Industry and market considerations.
- Cost factors and trends for labor and other expenses of operating our business.
- Our overall financial performance and outlook for the future.
- Trends in the quoted market value and trading of our common stock.

In considering these and other factors, we consider the extent to which any adverse events and circumstances identified could affect the comparison of our reporting unit’s fair value with its carrying amount. We place more weight on events and circumstances that most affect our reporting unit’s fair value or the carrying amount of our net assets. We consider positive and mitigating events and circumstances that may affect our determination of whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. We evaluate, on the basis of the weight of the evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount.

If, after assessing the totality of these qualitative events and circumstances, we determine it is not more likely than not that the fair value of our reporting unit is less than its carrying amount, we conclude there is no impairment of goodwill and perform no further testing in accordance with GAAP. If we conclude otherwise, we proceed with performing the first step, and if necessary, the second step, of the two-step goodwill impairment test prescribed by GAAP.

As of December 31, 2015, after assessing the totality of the relevant events and circumstances, we determined it not more likely than not that the fair value of our reporting unit was less than its carrying amount. Accordingly, we concluded there was no impairment of goodwill as of that date. There have been no material events or changes in circumstances since that time indicating that the carrying amount of goodwill may exceed its fair market value and that interim testing needed to be performed.

Capitalized Software Development Costs

When we complete research and development for a software product and have in place a detail program design or a working model of that software product, we capitalize production costs incurred for that software product from that point forward until it is ready for general release to the public. Thereafter, we amortize capitalized software production costs to expense using the straight-line method over the estimated useful life of that product, which is generally three years. We periodically assess the carrying value of capitalized software development costs relative to our estimates of realizability through sales of products in the marketplace.

Research and Development

We expense research and development costs as incurred.

Advertising Expense

We expense advertising costs as incurred as a component of our sales and marketing expenses. Advertising expense was $480,315 and $334,352 in the 2016 quarter and the 2015 quarter, respectively, and $1,447,078 and $1,116,894 in the 2016 nine months and 2015 nine months, respectively.

Share-Based Compensation

We measure the cost of share-based payment transactions at the grant date based on the calculated fair value of the award. We recognize this cost as an expense ratably over the recipient's requisite service period during which that award vests or becomes unrestricted.

For stock option awards, we estimate their fair value at the grant date using the Black-Scholes option-pricing model considering the following factors:

- We estimate expected volatility based on historical volatility of our common stock.
- We use primarily the simplified method to derive an expected term which represents an estimate of the time options are expected to remain outstanding. We use this method because our options are plain-vanilla options, and we believe our historical option exercise experience is not adequately indicative of our future expectations.
- We base the risk-free rate for periods within the contractual life of the option on the U.S. treasury yield curve in effect at the time of grant.
- We estimate a dividend yield based on our historical and expected future dividend payments.

For restricted stock awards, we use the quoted price of our common stock on the grant date as the fair value of the award.

Income Taxes

We account for income taxes using the asset and liability method. We record deferred tax assets and liabilities based on the difference between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, as measured by the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are carried on the balance sheet with the presumption that they will be realizable in future periods in which we generate taxable income.

We assess the likelihood that deferred tax assets will be realized from future taxable income. Based on this assessment, we provide any necessary valuation allowance on our balance sheet with a corresponding increase in the tax provision on our statement of operations. Any valuation allowances we establish are determined based upon a number of assumptions, judgments, and estimates, including forecasted earnings, future taxable income, and the relative proportions of revenue and income before taxes in the various domestic jurisdictions in which we operate.

We account for uncertainty in income taxes using a two-step process to determine the amount of tax benefit to be recognized. First, we evaluate the tax position to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, we assess the tax position to determine the amount of benefit to recognize in the financial statements. The amount of the benefit we recognize is the largest amount that we believe has a greater than 50% likelihood of being realized upon ultimate settlement. Unrecognized tax benefits represent tax positions for which reserves have been established.

Earnings Per Share

We compute basic earnings per share using the weighted-average number of common shares outstanding during the periods. We compute diluted earnings per share using the weighted-average number of common shares outstanding plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding.

Awards of non-vested restricted stock and options are considered potentially dilutive common shares for the purpose of computing earnings per common share. We apply the treasury stock method to non-vested options under which the assumed proceeds include the amount the employee must pay to exercise the option plus the amount of unrecognized cost attributable to future periods less any expected tax benefits.

Recent accounting pronouncements

In June 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update (ASU) 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments.* This pronouncement provides guidance as to the treatment of transactions in a statement of cash flows with respect to eight specific cash flow issues. During 2015 and 2016, we had no transactions of the type cited in the statement and do not anticipate having any such transactions in the foreseeable future. Accordingly we do not expect this pronouncement to have a material effect on how we present items in our statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. Among its provisions is a requirement that assets measured at amortized cost, which includes trade accounts receivable, be presented at the net amount expected to be collected. This pronouncement requires that an entity reflect all of its expected credit losses based on current estimates which will replace the current standard requiring that an entity need consider only past events and current conditions in measuring an incurred loss. We are subject to this guidance effective with financial statements we issue for the year ending December 31, 2020, and the quarterly periods during that year. We do not expect the amounts we report as accounts receivable in those future periods under this guidance to be materially affected relative to current guidance.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. When implemented, this standard will discontinue the recording in equity of tax benefits or tax deficiencies that arise from differences between share-based payment compensation expense recorded for financial statement purposes and that expense deductible for tax purposes. This new standard requires that the tax effect of all such differences be recorded and reported in the statement of operations. This standard also requires that tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows which is a change from the current requirement to present such tax-related items as an inflow from financing activities and an outflow from operating activities. In accordance with this standard, we will implement it beginning with our interim and annual financial statements for 2017. The extent of the effect of this standard on our financial statements for 2017 and later depends upon the level of stock option exercise activity we experience in 2017 and later. The amounts involved in accounting for tax benefits or deficiencies from share-based compensation that are the subject of ASU 2016-09 are presented in our 2016 and earlier consolidated statements of cash flows and consolidated statements of stockholders' equity on lines that are captioned tax benefit or tax deficiency from share-based compensation.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The main difference between existing GAAP and this ASU 2016-02 is the presentation by lessees on their financial statements of lease assets and lease liabilities arising from operating leases. Since this new standard retains the distinction between finance and operating leases, the effect of leases in the statement of operations and the statement of cash flows will be largely unchanged from existing GAAP. Our only lease of significance is our operating lease for our corporate office space for which we will present a right-to-use asset and a lease liability on our balance sheet when we implement this standard. We are in the process of determining those amounts. In accordance with this standard, we will implement it beginning with our interim and annual financial statements for 2019. The extent of the effect of this standard on our financial statements for 2019 and later will depend upon the leases, if any, that we have in effect at that date.

In November 2015, the FASB, issued ASU No. 2015-17, *Income Tax: Balance Sheet Classification of Deferred Taxes*. ASU 2015-07 requires that all deferred tax assets and liabilities for a tax jurisdiction, along with any related valuation allowance, be classified as noncurrent on the balance sheet. We have implemented this ASU in the accompanying financial statements in the manner described in the Note 6 below.

In May 2014, FASB issued ASU No. 2014-09 entitled *Revenue from Contracts with Customers (Topic 606)*. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. We are subject to this guidance effective with financial statements we issue for the year ending December 31, 2018, and the quarterly periods during that year. We do not expect the amounts or timing of revenue we report in those future periods under this guidance to be materially affected relative to current guidance.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company’s financial statements. It is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company’s financial position and results of operation.

4. Capitalized Software Development Costs

Our capitalized software development costs profile was as follows: ($ in thousands):

	September 30, 2016	December 31, 2015
Gross capitalized cost	$ 7,012	$ 5,714
Accumulated amortization	(3,051)	(1,732)
Net balance	$ 3,961	$ 3,982

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Amount capitalized	$ 452	$ 506	$ 1,298	$ 1,613
Amortization expense	(450)	(367)	(1,319)	(912)

	Released Products	Unreleased Products
Gross capitalized amount at September 30, 2016	$ 5,700	$ 1,312

Future amortization expense:	
Three months ending December 31, 2016	452
Year ending December 31,	
2017	1,433
2018	699
2019	65
Total	$ 2,649

The future amortization expense of the gross capitalized software development costs related to unreleased products will be determinable at a future date when those products are ready for general release to the public.

5. Stock Options, Restricted Stock and Share-Based Compensation

We have stock-based compensation plans under which we have granted, and may grant in the future, incentive stock options, non-qualified stock options, and restricted stock to employees and non-employee members of the Board of Directors. Our share-based compensation expense was as follows ($ in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Share-based compensation expense	$ 221	$ 167	$ 721	$ 482

Stock Options

The GlobalSCAPE, Inc. 2010 Employee Long-Term Equity Incentive Plan is our current stock-based incentive plan for our employees. Provisions and characteristics of this plan include the following:

- It authorizes the issuance of up to three million shares of common stock for stock-based incentives including stock options and restricted stock awards.
- The exercise price, term and other conditions applicable to each stock option or stock award granted are determined by the Compensation Committee of the Board of Directors.
- The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock at market close on that date.
- Stock options we issue generally become exercisable ratably over a three-year period and expire ten years from the date of grant.
- We issued no restricted stock awards under this plan during the 2016 or 2015 periods.
- As of September 30, 2016, stock-based incentives for up to 167,335 shares remained available for issuance in the future under this plan.

Our stock option activity has been as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2015	2,091,325	$ 2.45	6.09	$ 3,277
Granted	1,055,300	$ 3.58		
Forfeited	(372,045)	$ 3.14		
Exercised	(165,135)	$ 2.02		
Outstanding at September 30, 2016	2,609,445	$ 2.83	6.29	$ 2,015
Exercisable at September 30, 2016	1,351,760	$ 2.26	3.59	$ 1,814

Additional information about our stock options is as follows:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Weighted average fair value of options granted	$ 1.61	$ 1.42	$ 1.63	$ 1.38
Intrinsic value of options exercised	$ 78,607	$ 105,450	$ 261,061	$ 386,408
Cash received from stock options exercised	$ 70,320	$ 98,706	$ 333,329	$ 416,680
Number of options that vested	42,390	93,290	308,736	274,824
Fair value of options that vested	$ 42,565	$ 97,679	$ 418,877	$ 296,886
Unrecognized compensation expense related to non-vested options at end of period	$ 1,609,593	$ 753,846	$ 1,609,593	$ 753,846
Weighted average years over which non-vested option expense will be recognized	2.3	2.0	2.3	2.0

As of September 30, 2016						
		Options Outstanding			Options Exercisable	
Range of Exercise Prices	Underlying Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number of Underlying Shares	Weighted Average Exercise Price
$ 0.85 - $1.43	168,600	3.16	$ 1.16		168,600	$ 1.16
$ 1.47 - $2.32	612,995	4.05	$ 1.82		607,255	$ 1.82
$ 2.34 - $3.52	1,319,850	7.29	$ 3.13		445,905	$ 2.74
$ 3.53 - $4.21	508,000	7.44	$ 3.83		130,000	$ 4.10
Total options	2,609,445				1,351,760	

We used the following assumptions to determine compensation expense for our stock options using the Black-Scholes option-pricing model:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Expected volatility	54%	56%	55%	57%
Expected annual dividend yield	1.50%	2.40%	1.50%	2.40%
Risk free rate of return	1.18%	1.75%	1.46%	1.59%
Expected option term (years)	6.00	6.00	6.00	6.00

Based upon our dividend payment activity in recent years, beginning with the first quarter of 2015, we added an expected annual dividend yield to these assumptions.

Restricted Stock Awards

In May 2015, we adopted the 2015 Non-Employee Directors Long Term Incentive Plan ("2015 Directors Plan"). This plan provides for the issuance of either stock options or restricted stock awards for up to 500,000 shares of our common stock. Provisions and characteristics of this plan include the following:

- The exercise price, term and other conditions applicable to each stock option or stock award granted are determined by the Compensation Committee of the Board of Directors.
- Restricted stock awards are initially issued with a legend restricting transferability of the shares until the recipient satisfies the vesting provision of the award, which is generally continuing service for one year subsequent to the date of the award.
- As of September 30, 2016, stock based incentives for up to 340,000 shares remained available for issuance in the future under this plan.

Our restricted stock awards activity has been as follows:

	Number of Shares	Grant Date Fair Value Per Share	Total Fair Value of Shares That Vested
Restricted Shares Outstanding at December 31, 2015	80,000	$ 3.34	
Shares granted with restrictions	80,000	$ 3.31	
Shares vested and restrictions removed	(80,000)	$ 3.34	$ 276,000
Restricted Shares Outstanding at September 30, 2016	80,000	$ 3.31	
Unrecognized compensation expense for non-vested shares as of September 30,2016			
Expense to be recognized in future periods	$ 156,999		
Weighted average number of months over which expense is expected to be recognized	7		

6. Income Taxes

The components of our income tax expense (benefit) are as follows ($ in thousands):

	Three months ended September 30,						Nine months ended September 30,					
	2016			2015			2016			2015		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	$ 688	$ (81)	$ 607	$ 797	$ (254)	$ 543	$ 1,214	$ (21)	$ 1,193	$ 1,812	$ (313)	$ 1,499
Foreign	12	-	12	6	-	6	37		$ 22	33	-	$ 33
State	72	(4)	68	(4)	(3)	(7)	133	(15)	$ 133	60	(7)	$ 53
Total	$ 772	$ (85)	$ 687	$ 799	$ (257)	$ 542	$ 1,384	$ (36)	$ 1,348	$ 1,905	$ (320)	$ 1,585

Current taxes per our federal income tax return are presented in these financial statements as follows ($ in thousands):

	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Current federal income tax expense in the statement of operations	$ 687	$ 542	$ 1,348	$ 1,585
Tax (deficiency) from stock-based compensation recorded in additional paid-in capital	(13)	(15)	(26)	(59)
Current taxes per our federal income tax return	$ 674	$ 527	$ 1,322	$ 1,526

Deferred income taxes on our balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows ($ in thousands):

	September 30, 2016	December 31, 2015
Deferred tax assets:		
Share-based compensation	$ 718	$ 677
Deferred revenue	1,185	1,154
Net operating loss carryforward	106	151
Compensation and benefits	164	168
Allowance for doubtful accounts	114	111
Other	52	33
Total deferred tax assets	2,339	2,294
Deferred tax liabilities:		
Intangible assets	1,356	1,339
Depreciation	7	15
Total gross deferred tax liabilities	1,363	1,354
Net deferred tax assets	$ 976	$ 940

As of September 30, 2016, we had federal income tax net operating loss carryforwards of $312,000 available to offset future federal taxable income, if any. These carryforwards became available through our acquisition of TappIn, Inc. in 2011. These carryforwards expire in 2030 and 2031.

As of September 30, 2016, we had federal income tax capital loss carryforwards of $1,100,000 (tax effected) which resulted from the reduction of our investments in and notes receivable from CoreTrace Corporation in 2012. We can realize capital loss carryforwards to the extent we have capital gains in future periods against which this capital loss can be deducted. We believe it uncertain that we will have sufficient capital gains in the future to support this deduction and accordingly have not reflected this item as a deferred tax asset in the schedule above. This carryforward expires in 2017.

In assessing the realizability of deferred tax assets, we consider whether it is more-likely-than-not that a deferred tax asset will not be realized. Our assessment of the likelihood of having sufficient taxable income in the future to support deduction or utilization of the items giving rise to our deferred tax assets indicates it is more-likely-than-not that we will realize the deferred tax assets listed in the table above.

We claim research and experimentation tax credits, or R&D tax credits, on certain of our tax returns and have included the effect of those credits in our provision for income taxes. Because our 2008, 2009 and 2010 tax returns were under routine examination by the Internal Revenue Service and because we believed it more-likely-than-not the examination could result in $125,000 of such credits we claimed not being allowed by the Internal Revenue Service, we recorded a reserve for an uncertain tax position in the amount of $125,000 in 2012 related to this item. The Internal Revenue Service completed its routine examination of our 2008, 2009 and 2010 income tax returns in 2015 and those results have been included in our provision for income taxes in 2015. We continue to maintain a reserve for an uncertain tax position in the amount of $110,000 for our 2011 through 2016 tax returns related to the R&D tax credit.

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows ($ in thousands):

	2016	2015
Balance at beginning of year	$ 90	$ 125
Increases for tax positions related to the current year	9	-
Increases for tax positions related to prior years	11	48
Decreases for tax positions related to prior years	-	(51)
Decreases due to settlements related to prior years	-	(32)
Balance at September 30 and December 31, respectively	$ 110	$ 90

To the extent they arise, we record interest and penalty expenses related to income taxes as components of other expense in our statement of operations. We incurred no such expenses in 2016, 2015 or 2014.

We file state tax returns in various states. The taxes resulting from these filings are included in income tax expense.

Our income tax expense (benefit) reconciles to an income tax expense resulting from applying an assumed statutory federal income rate of 34% to income before income taxes as follows ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Income tax expense (benefit) at federal statutory rate	$ 710	$ 603	$ 1,397	$ 1,685
Increase (decrease) in taxes resulting from:				
State taxes, net of federal benefit	44	(5)	72	33
Incentive stock options	25	0	60	0
Other	(1)	(13)	20	8
R&D tax credit uncertain tax position (net)	10	110	21	59
Research and development credit	(55)	(123)	(119)	(123)
Domestic production activities deduction	(46)	(30)	(103)	(77)
Income tax expense (benefit) per the statement of operations	$ 687	$ 542	$ 1,348	$ 1,585

In November 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-17, *Income Tax: Balance Sheet Classification of Deferred Taxes*. ASU 2015-07 requires that all deferred tax assets and liabilities for a tax jurisdiction, along with any related valuation allowance, be classified as noncurrent on the balance sheet. We have implemented this ASU in the accompanying financial statements. This implementation resulted in the previously reported current deferred tax asset of $313,000 as of September 30, 2015, being reclassified and combined with the previously reported non-current deferred asset of $699,000 as of that date to yield a non-current deferred tax asset balance of $1,012,000 being reported as of September 30, 2015, in the accompanying financial statements.

7. Earnings per Common Share

Earnings per share for the periods indicated were as follows ($ in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income	$ 1,399	$ 1,230	$ 2,761	$ 3,370
Weighted average shares outstanding - basic	21,122	20,892	21,061	20,782
Stock options	552	548	579	512
Weighted average shares outstanding - diluted	21,674	21,440	21,640	21,294
Net income per common share - basic	$ 0.07	$ 0.06	$ 0.13	$ 0.16
Net income per common share - diluted	$ 0.06	$ 0.06	$ 0.13	$ 0.16

8. Dividends

During 2016, our Board of Directors declared quarterly dividends as follows:

	March 31, 2016	**June 30, 2016**	**September 30, 2016**
Dividend per share of common stock	$ 0.015	$ 0.015	$ 0.015
Dividend record date	February 23, 2016	May 23, 2016	August 23, 2016
Dividend payment date	March 3, 2016	June 1, 2016	September 9, 2016

9. Commitments and Contingencies

We have agreements with key personnel that provide for severance payments to them in the event of a change in control of the Company, as defined in those agreements, and their employment is terminated in connection with that change in control. In such event, our aggregate severance payments to those employees would be $1.6 million.

10. Concentration of Business Volume and Credit Risk

In order to leverage the resources of third parties, we make our products available for purchase by end users through third-party, channel distributors even though those end users can also purchase those products directly from us. During the 2016 quarter we earned approximately 17% of our revenue from such sales through our largest, third party, channel distributor. During the 2015 quarter there was no single customer that exceeded 10% of sales. During the 2016 nine months and 2015 nine months, we earned approximately 14% and 10%, respectively, of our revenue from such sales through our largest, third party, channel distributor.

As of September 30, 2016, approximately 40% of our accounts receivable were due from this third party, channel distributor discussed above and from one other customer, the latter of which did not constitute more than 10% of our revenue for any of the periods presented. Payment for substantially all such amounts has been received subsequent to that date.

11. Segment and Geographic Disclosures

Revenues derived from customers and partners located in the United States accounted for approximately 83% and 78% of our total revenues in 2016 and 2015 quarter, respectively, and 78% and 76% of our total revenues for both the 2016 and 2015 nine months. The remaining revenues were from customers and partners located in foreign countries with each individual foreign country accounting for less than 10% of total revenues in all periods. We attribute revenues to countries based on the country in which the customer or partner is located. None of our property and equipment was located in a foreign country as of September 30, 2016 and 2015.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q and any documents incorporated by reference herein contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. "Forward-looking statements" are those statements that are not of historical fact but describe management's beliefs and expectations. We have identified many of the forward-looking statements in this Quarterly Report by using words such as "anticipate," "believe," "could," "estimate," "may," "expect," "potentially" and "intend." Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties, including those described in the "Risk Factors" section of our 2015 Form 10-K and other documents filed with the Securities and Exchange Commission. Therefore, GlobalSCAPE's actual results of operations and financial condition in the future could differ materially from those discussed in this Quarterly Report.

In the following discussion, our references to the 2016 quarter and the 2015 quarter refer to the three months ended September 30, 2016 and 2015, respectively. Our references to the 2016 nine months and the 2015 nine months refer to the nine months ended September 30, 2016 and 2015, respectively.

Overview

We develop and sell computer software that provides secure information exchange, data transfer and sharing capabilities for enterprises and consumers. We have been in business for twenty years and have sold our products to thousands of enterprises and more than one million individual consumers throughout the world.

Our primary business is selling and supporting managed file transfer, or MFT, software for enterprises. The brand name of our MFT product platform is Enhanced File Transfer, or EFT.

We earn most of our revenue from the sale of EFT and products that are part of our EFT platform. We earn revenue from the sale of perpetual software licenses, providing products under software-as-a-service, or SaaS, subscriptions, providing maintenance and support services, or M&S, and offering professional services for product customization and integration.

We also sell other products that are synergistic to EFT including Mail Express, scConnect, WAFS, and CuteFTP. Collectively, these products constitute less than 10% of our total revenue.

We focus on selling our EFT platform products in a business-to-business environment. The majority of the resources we will expend in the future for product research and development, marketing and sales will focus on that environment. We believe our products and business capabilities are well-positioned to compete effectively in the market for MFT products. For a more comprehensive discussion of the products we sell and the services we offer, see *Software Products and Services* below.

As a corporation, we have won multiple awards for performance and reputation, including:

In 2016:

- Recognized as a 2016 Top Workplace by San Antonio Express-News, marking Globalscape's sixth recognition as a Top Workplace in San Antonio.
- Named as Leader in Secure Information Exchange Services 2016 – Texas by the Corp America 2016 Small Cap Awards.
- Earned awards from *Info Security Guide* in several categories, including:
  - EFT Workspaces – Gold Winner in BYOD Security.
  - Enhanced File Transfer – Silver Winner in Compliance.
  - EFT Cloud Services – Bronze Winner in Cloud Security.
  - Mail Express – Bronze Winner in Email Security and Management.
- Received a 5-Star rating in The Channel Company's CRN 2016 Partner Program Guide for the second year in a row.
- Named by *Texas Monthly* magazine as one of the best companies to work for in Texas for the sixth year in a row with a ranking of #16 in the medium size category.
- Honored as the HR Employer of the Year and Excellence in Engagement Strategy in North America by the HRO Today Services and Technology Association.

- Recognized by the *San Antonio Business Journal* as a 2016 Best Place to Work, making this the fifth time GlobalSCAPE has received this honor.
- Named by *Computerworld* as one of the best companies to work for in IT for the third consecutive year with a ranking of #3 in the small company category.

In 2015:

- Listed as a Champion in the Ad-Hoc Mid-Market category and a Leader in the Ad-Hoc Enterprise use case by Info-Tech Research Group within its Managed File Transfer Vendor Landscape report. This is the second consecutive time that Info-Tech Research Group has named GlobalSCAPE a Champion within this report.
- Named one of the best places to work in the information technologies small business category by *Computerworld* for the fourth time.
- Named as one of San Antonio's best places to work by the *San Antonio Business Journal* for the fifth time in the medium size category.
- Received a 5-Star rating in The Channel Company's CRN 2015 Partner Program Guide.
- Named by *Texas Monthly* magazine as one of the best companies to work for in Texas for the fifth year in a row with a ranking of #3 in the medium size category.
- Named to the *San Antonio Business Journal's* 2015 Fast Track list for companies with $10 million or more in revenue.
- Named by the *San Antonio Express News* as the #1 Top Workplace for 2015 in the small company category, and recognized as one of the Top Workplaces for the fifth time.
- Two members of the channel leadership team recognized as The Channel Company's 2015 *CRN* Channel Chiefs.
- Two channel team members named to The Channel Company's 2015 *CRN* Women of the Channel list.
- Recognized by the Golden Bridge Business and Innovation Awards as a Gold Winner in the Managed File Transfer – Innovations category for EFT Workspaces.
- Recognized by the Info Security Products Guide's Global Excellence Awards as a Gold Winner within the Compliance category for Enhanced File Transfer (EFT) and as a Bronze Winner within the Email Security and Management category for Mail Express.
- Recognized by the Network Products Guide awards as a Gold Winner in Compliance Data Centers for EFT v7.0 and a Silver Winner in Email, Security and Management with Mail Express v4.

Key Business Metrics

We review a number of key business metrics on an ongoing basis to help us monitor our performance and to identify trends which may materially affect our business. The significant metrics we review are described below.

Revenue Growth

We believe annual revenue growth is a key metric for monitoring our continued success in developing our business in future periods. Given our diverse solution portfolio, we review our revenue mix and changes in revenue, across all solutions, on a regular basis to identify key trends. We believe our revenue growth is primarily dependent upon executing our business strategies which include:

Ongoing innovation of, and focus on, our core EFT platform and its expansion into broader segments of the market.
Developing emerging technologies and/or acquiring products with features that build upon and add capabilities to our EFT platform.
Continuing the evolution of enhanced demand generation activities including marketing, customer-focused, and partner-focused programs.

To support product innovation, we continue to enhance our software engineering group and our focus on optimizing the manner in which we assess the development of new technologies, our approach to managing those projects, and the timelines over which we do that work.

In continuing to develop our demand generation activities, we have made and continue to make ongoing changes in sales and marketing including:

- Increasing sales staff capacity as needed to address our markets.
- Aligning our sales group to enhance its industry and geographic focus.
- Implementing new sales and marketing campaigns.
- Using third party digital marketing experts with search engine optimization expertise to enhance our efforts in this area.
- Evolving our lead generation programs to increase our sales staff's exposure to potential purchasers.
- Enhancing our support of channel partners and engaging them to sell our products through training, orientation and marketing programs.

As part of growing revenue in total, we are focused on increasing license revenue both in terms of absolute dollars and as a percent of total revenue. When we sell our licensed products, we also typically create a recurring revenue stream from M&S since almost all purchasers of our licensed enterprise products also purchase an M&S contract. Most of our M&S contracts are for one year although we also sell multi-year contracts. The customer pays us the M&S fee for the entire term of the agreement at the time the contract begins. We recognize that amount as revenue ratably in future periods over the term of the contract.

We typically experience a high renewal rate for M&S services for our enterprise products so long as a customer continues using the licensed product they purchased from us. As a result, growing license revenue not only contributes to increasing revenue growth at the time the license is sold but also provides a foundation for future recurring revenue as the purchasers of our licensed products renew M&S agreements to support their ongoing product support needs. This pattern of activity can create a cumulative effect for M&S renewals as a result of the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this cumulative effect to continue to grow if we continue to increase enterprise software license revenue in future periods. For these reasons, we expect M&S revenue will remain a substantial part of our total revenue.

See *Comparison of the Statement of Operations for the Three Months Ended September 30, 2016 and 2015* and *Comparison of the Statement of Operations for the Nine Months Ended September 30, 2016 and 2015* for a discussion of trends in our revenue growth that we monitor using this metric.

Bookings (Non-GAAP Measurement)

Bookings is a business metric we use to measure the success of our sales and marketing programs and the effectiveness of our sales and marketing teams. Bookings are a measure of the value of our arrangements with customers for purchases of software licenses, software-as-a-service, M&S, and professional services. Our bookings consist of:

- Invoiced amounts for products and services we have delivered and for which we recognize revenue currently.
- Invoiced amounts for products and services we will deliver in the future and for which we will recognize revenue in those future periods.
- Arrangements to provide customers with software-as-a-service for which we will invoice over the course of an agreed-upon period of time in the future.
- Statements of work under which customers have engaged us to deliver professional services for which we will invoice in the future as we complete that work.

Bookings is not a measure of financial performance under generally accepted accounting principles, or GAAP, and should not be considered a substitute for revenue. Bookings has limitations as an analytical tool and when assessing our operating performance. Bookings should not be considered in isolation or as a substitute for revenue or other income statement data prepared in accordance with GAAP.

Our bookings trends and the reconciliation of bookings to revenue are as follows ($ in thousands):

	Three Months Ending September 30,		Nine Months Ending September 30,	
	2016	2015	2016	2015
Bookings	$ 10,296	$ 9,869	$ 26,256	$ 24,011
Products and services sold for which we will recognize revenue at a future date when the goods and services are delivered to and accepted by the customer	(8,967)	(6,772)	(20,945)	(15,455)
Products and services delivered to and accepted by the customer for which revenue recognition had been deferred at the time of booking	7,424	4,550	19,110	13,834
Revenue	$ 8,753	$ 7,647	$ 24,421	$ 22,390

Bookings increased during the 2016 quarter compared to the 2015 quarter and during the 2016 nine months compared to the 2015 nine months primarily as a result of our product development and sales and marketing activities discussed above under *Revenue Growth*.

Adjusted EBITDA

We utilize Adjusted EBITDA (Earnings Before Interest, Taxes, Total Other Income/Expense, Depreciation, Amortization, other than amortization of capitalized software development costs, and Share-Based Compensation Expense) to provide us a view of income and expenses and cash flow from our operations that is supplemental and secondary to our primary assessment of net income as presented in our condensed consolidated statement of operations and comprehensive income and of cash flow from operating activities as presented on our condensed consolidated statement of cash flows. We use Adjusted EBITDA to provide another perspective for measuring profitability and cash flow from our core operating activities that is before considering the effects of expenses that typically do not require us to pay them in the current period (such as depreciation, amortization and share-based compensation), that is prior to considering the cost of financing our business and the effects of income taxes, and that is prior to the effects on our cash of changes in certain balance sheet items such as accounts receivable and accounts payable. We monitor the components of EBITDA to assess our actual performance relative to our plans, budgets and expectations and use the results of that assessment to adjust our future activities to the extent we deem necessary.

Adjusted EBITDA is not a measure of financial performance under GAAP. It should not be considered as a substitute for net income presented on our condensed consolidated statement of operations and comprehensive income or for net cash provided by operating activities presented on our condensed consolidated statement of cash flows. Adjusted EBITDA has limitations as an analytical tool and when assessing our operating performance. Adjusted EBITDA should not be considered in isolation or without a simultaneous reading and consideration of our financial statements prepared in accordance with GAAP.

Previously, this key business metric was named Adjusted EBITDA Excluding Infrequent Items. We have not had any infrequent items in recent periods and do not expect any in the foreseeable future. As a result, we have removed the infrequent item component from this key business metric.

We compute Adjusted EBITDA as follows ($ in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income	$ 1,399	$ 1,230	$ 2,761	$ 3,370
Add (subtract) items to determine adjusted EBITDA:				
Income tax expense	687	542	1,348	1,585
Interest (income) expense, net	(28)	(17)	(88)	(51)
Depreciation and amortization:				
Total depreciation and amortization	513	433	1,522	1,116
Amortization of capitalized software development costs	(450)	(367)	(1,319)	(912)
Stock-based compensation expense	221	167	721	482
Adjusted EBITDA	$ 2,342	$ 1,988	$ 4,945	$ 5,590

Adjusted EBITDA reconciles as follows to net cash provided by operating activities on our condensed consolidated statement of cash flow:

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Adjusted EBITDA	$ 4,945	$ 5,590
Add (subtract) items to reconcile to cash flow from operations:		
Income tax expense	(1,348)	(1,585)
Interest income (expense), net	88	51
Amortization of capitalized software development costs	1,319	912
Bad debt expense	67	147
Deferred taxes	(36)	(320)
Excess tax benefit from share-based comp	5	(49)
Accounts receivable	(2,856)	(1,690)
Prepaid expenses	86	154
Other Assets	30	37
Accounts payable	(217)	(757)
Accrued expenses	(52)	10
Deferred revenue	1,081	531
Other long term liabilities	(10)	(5)
Income tax receivable and payable	571	403
Net cash provided by operating activities	$ 3,673	$ 3,429

See the section below comparing our results of operations for the 2016 quarter and the 2015 quarter and the 2016 nine months and 2015 nine months for discussion of the variances between periods in the components comprising Adjusted EBITDA.

Software Products and Services

We develop and sell computer software that provides secure information exchange, file transfer and file sharing capabilities for enterprises and consumers. We have been in business for twenty years and have sold our products to thousands of enterprises and more than one million individual consumers throughout the world.

Our primary business is selling and supporting MFT software for enterprises. MFT software facilitates the transfer of data from one location to another across a computer network within a single enterprise or between multiple computer networks in multiple enterprises. These transfers may be ongoing, repetitive activities executed by automated software routines that occur without human intervention, or they may be transfers that people create and complete in the absence of automated routines or as a result of ad-hoc, special situations that arise from time-to-time. Examples of enterprise-level activities that rely on MFT software include:

- Transfer of transactional information within an enterprise on a repetitive basis from one geographic location to another, such as a transfer of deposit and withdrawal information throughout the day from a branch of a bank to a central data processing center at another location.
- Movement of accumulated information within an enterprise from one data processing application to another on a periodic basis, such as a transfer of bi-weekly payroll information from a payroll system that is used to pay employees to a job cost system that is used to manage the cost of a project.
- Exchange of information between enterprises to facilitate the completion of one or more business transactions, such as a retailer transmitting inventory purchasing requirements produced by its material requirements planning system to an order entry system at a supplying vendor.

We have multiple revenue streams from our MFT products that include:

- Perpetual software licenses under which customers install our products in their information systems environment.
- Cloud-based SaaS hosted solutions to which our customers subscribe and pay us a recurring, monthly fee to access the service.
- M&S.
- Professional services for product customization and integration.

We also sell products that can be synergistic to our MFT products. These products have capabilities that:

- Support information sharing and exchange capabilities using traditional email systems.
- Enable enterprise file synchronization and sharing.
- Enhance the ability to replicate, share and backup files within a wide area network or local area network, thereby allowing users to access their data at higher speeds than possible with most alternate approaches.
- Support file transfers by individuals and small businesses.

We earn most of our revenue from the sale of our MFT products to support business-to-business activities. We are strategically focused on selling products in that environment such that the majority of our resources that we will expend in the future for product research and development, marketing, and sales will concentrate on the MFT business-to-business market. We believe our products and business capabilities are well-positioned to compete effectively in that market.

Some of our products support consumer-oriented file transfers and file sharing. Even though these products are profitable on an overall basis, we anticipate the future resources we will expend related to products sold to consumers and the associated revenue we earn from those products will continue to be a minor part of our business.

The following is a summary description of our specific products and solutions.

Managed File Transfer – Enhanced File Transfer Platform

Enhanced File Transfer, or EFT, is the brand name of our core MFT product platform. EFT was a Silver Winner in the Compliance category and Gold Winner in the BYOD category of the 2016 Info Security Products Guide Global Excellence Awards.

The EFT platform provides users the ability to securely transmit data and information from one location to another using any number of files of any size or configuration. It facilitates management, monitoring, and reporting on file transfers and delivers advanced data transfer workflow capabilities to move data and information into, out of, and throughout an enterprise. Notable features and capabilities of the EFT platform include:

- State-of-the-art, enterprise-level security when transferring information within or between computer networks as well as for collaboration with business partners, customers, and employees. EFT provides automation that supports effective integration of back-end systems. It has built-in regulatory compliance, governance, and visibility controls to provide a means of safely maintaining information. EFT offers a high level of performance and scalability to support operational efficiency and maintain business continuity. Administrative tools are provided at various levels of granularity to allow for complete control and monitoring of file transfer activities.
- Transmission of critical information such as financial data, medical records, customer files, vendor files, personnel files, transaction activity, and other similar documents between diverse and geographically separated network infrastructures while supporting a range of information protection approaches to meet privacy and other security requirements. In addition to enabling the secure, flexible transmission of critical information using servers, desktop, and notebook computers and a wide range of network-enabled mobile devices, our products also provide customers with the ability to monitor and audit file transfer activities.
- Compliance with government regulations and industry standards relating to the protection of information while allowing users to reduce information systems and technologies costs, increase efficiency, track and audit transactions, and automate processes. Our solutions also provide data replication, acceleration of file transfer, sharing/collaboration, and continuous data backup and recovery to our customers.

The EFT platform provides a common, scalable MFT environment that accommodates a broad family of accompanying modules to provide enterprises with increased security, automation, and performance when compared to traditional FTP-based and e-mail delivery systems. Various, optional modules allow users to select the solution configuration most applicable to their requirements for auditing and reporting, encryption, ad hoc and web-based file transfers, operability in or through a DMZ network, and integration with back-end business processes, including workflow automation capabilities.

During the past several quarters, we have released new versions of our EFT platform and new modules which added several enhancements and capabilities including:

- Accelerate, which is an accelerated file transfer module that boosts the speed and efficiency of secure data transfers and allows for the fast transfer of large files over disparate geographic distances.
- Workspaces, which is a file-sharing module that allows employees to create their own groups and assign permissions for those groups, much like a virtual data room, to provide access to files for which they themselves have access on the EFT server. This functionality is accomplished without compromising the security, control, and governance of those files.
- Active-active high availability, or HA, which maximizes uptime and performance of critical information technology systems.
- Enhanced compatibility of web transfer client file transfers through HTML5 support in addition to the existing Java Runtime Environment.
- Increased scalability and business continuity with more flexible, uninterrupted file transfer service.
- Improved facilitation of PCI DSS version 3.0 compliance with updates to security components, such as PGP and AS2.
- Addition of new Content Integrity Control providing an Internet Content Adaptation Protocol (ICAP) connector to anti-malware scanners and data loss prevention (DLP) solutions.
- Integration with SMS PASSCODE for Mobile-Based 2 Factor Authentication.
- Enhanced and expanded event rule functionality which improves the ability to integrate our products with client business processes and backend systems

We continue to enhance the EFT platform with capabilities that improve its speed and responsiveness of performance, provide additional administration flexibility supporting cross-platform implementation with our DMZ Gateway solution, offer business activity monitoring, and provide additional language support.

Most EFT customers choose to purchase a perpetual software license for a one-time fee paid at the time of purchase and under which they install the software on equipment they own and/or manage. In almost all cases, they also purchase ongoing M&S for which they pay us a recurring, annual amount that typically is 20% to 30% of the price of the software license.

If a customer prefers to use the capabilities of EFT in a SaaS fashion, we offer EFT Cloud Services. The EFT platform delivered in this manner has the same features and functionality as our EFT platform installed at a customer site. EFT Cloud Services allows users to reduce their upfront cost and achieve other recognized benefits of cloud-based managed file transfer SaaS subscription solutions, including strong service level agreements for information technologies infrastructure reliability and performance.

EFT Cloud Services provides a flexible continuum of features and functions that gives the user the ability to pick and choose the extent to which they want to own or outsource the capabilities of our EFT platform. EFT Cloud Services gives organizations the flexibility of either a hybrid cloud or virtual environment with the security of an on-premises managed file transfer solution. Users of EFT Cloud Services have the option to work with a variety of top hosting providers that best fit their needs. We offer flexible subscription pricing under one, two, and three-year contracts that can help our customers minimize or eliminate upfront capital expenditures and possibly reduce their ongoing operating costs.

We earn most of our revenue from our products and services related to our EFT platform. Currently, most of this revenue is from sales of perpetual software licenses, paid as a one-time fee, along with an M&S contract that creates recurring revenue. Subscription revenue from EFT Cloud Services is increasing but is not yet a material portion of the total revenue from our EFT platform. Most of the resources we expend, and expect to expend in the future, relate to development, marketing, sales and support of the EFT platform in a business-to-business environment.

Secure Information Sharing and Exchange Solution – Mail Express

Mail Express is a solution that provides secure information sharing and exchange capabilities leveraging traditional email workflow. It is a stand-alone product installed in a client-server environment that allows users to send and receive secure, encrypted e-mail and attachments of virtually unlimited size. Mail Express was a Bronze Winner in the Email Security and Management category of the 2015 Info Security Products Guide Global Excellence Awards.

To broaden the appeal and capabilities of Mail Express, we are developing functionality that integrates the features of Mail Express into the EFT platform. This integration will take the superior control, visibility and monitoring capabilities of the EFT platform and make them available to administrators and users in an email environment. This integrated product will improve operational efficiency by providing a coordinated user interface through which data movement activities using both our EFT and Mail Express products can be managed.

File Synchronization and Sharing Solution - scConnect

scConnect, is our on-premises, enterprise file synchronization and sharing solution. It provides users with the ability to share and access data anytime on any device, while providing information technology department administrators with the tools necessary to maintain the security of sensitive enterprise information and to control and monitor user access and activity. scConnect enables secure collaboration without involving third-party servers.

We continue to develop the features and functions of scConnect. As part of our development of this product, we intend to eventually integrate its capabilities into the functionality of our EFT platform.

Wide Area File Services Solution - WAFS

Our WAFS software product uses data synchronization to further enhance the ability to replicate, share and backup files within a wide area network or local area network, thereby allowing users to access their data at higher speeds than possible with most alternate approaches. The software uses byte-level differencing technology to update changes to files with minimal impact on network bandwidth while also ensuring that files are never overwritten, even if opened by other remote users. Other key features of WAFS include native file locking, replication to multiple locations simultaneously, adherence to access control list file permissions, and full UTF-8 support.

We will continue selling WAFS as a stand-alone product and providing M&S services to customers who purchased WAFS in the past and who purchase it in the future. We do not expect to expend significant resources in the future expanding the features and capabilities of WAFS.

File Transfer Solution for Consumers - CuteFTP

CuteFTP is our original product introduced in 1996. It is a file transfer program generally used by individuals and small businesses. It remains popular today and generates incremental revenue for us at a relatively low cost.

CuteFTP continues to have significant brand recognition in the market. Our current CuteFTP Version 9 introduced several notable new features including:

Support for Unicode (UTF-8) characters that allows greater international use.
Web Distributed Authoring and Versioning (WebDAV) support to facilitate collaboration between users in editing and managing documents and files stored on World Wide Web servers.

Version 9 simplified our CuteFTP product line by consolidating all the features of our previous multi-product CuteFTP product line for Windows operating systems into this single version. We continue to offer CuteFTP Version 3.1 software for Mac platforms. We believe current versions of CuteFTP appeal to users wanting features more robust than offered in free alternatives such that it will be a product competitive in the marketplace for the foreseeable future.

We will continue selling CuteFTP as a stand-alone product and providing M&S services to customers who purchased CuteFTP in the past and who purchase it in the future. We do not expect to expend significant resources in the future expanding the features and capabilities of CuteFTP.

Professional Services

We offer a range of professional services to complement our on-premises and SaaS cloud-based solutions. These professional services include product customization and system integration, solution “quickstart” implementations, business process and workflow, policy development, education and training, and solution health checks. In addition, we may provide longer-term engineering services, including supporting multi-year contracts, if necessary, to support certain solution implementations and integrations.

Maintenance and Support

We offer M&S contracts to licensees of all of our software products. These M&S contracts entitle the licensee to software upgrades and technical support services in accordance with the terms of our M&S contract. Standard technical support services are provided via email and telephone during our regular business hours. For certain of our products, we offer a Platinum M&S contract which provides access to emergency technical assistance 24 hours per day, 7 days a week.

Most of our M&S contracts are for one year although we also sell multi-year contracts. M&S is purchased by substantially all buyers of our EFT platform as well as by many customers who purchase our other products. Customers with M&S pay us a recurring, annual amount that is typically 20% to 30% of the software license price. A majority of our customers with M&S contracts renew them each year.

Employees

As of October 31, 2016, we had 126 full-time employees organized as follows:

Department	Number of Employees
Sales and Marketing	44
Engineering	28
Professional Services	12
Customer Support	22
Management and Administration	20
Total	126

Solution Perspective and Trends

The components of our revenue are as follows ($ in thousands):

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015		Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Type								
Software licenses	$ 3,373	38.6%	$ 2,852	37.3%	$ 8,565	35.1%	$ 8,590	38.4%
Maintenance and support	4,713	53.8%	4,142	54.2%	13,843	56.7%	12,269	54.8%
Professional services	667	7.6%	653	8.5%	2,013	8.2%	1,531	6.8%
Total Revenue	$ 8,753	100.0%	$ 7,647	100.0%	$ 24,421	100.0%	$ 22,390	100.0%
Revenue by Product								
EFT Enterprise and Standard	$ 8,212	93.8%	$ 6,905	90.3%	$ 22,678	92.9%	$ 19,983	89.2%
Wide Area File Services	209	2.4%	236	3.1%	658	2.7%	764	3.4%
CuteFTP	124	1.4%	240	3.1%	480	2.0%	665	3.0%
Other	208	2.4%	266	3.5%	605	2.4%	978	4.4%
Total Revenue	$ 8,753	100.0%	$ 7,647	100.0%	$ 24,421	100.0%	$ 22,390	100.0%

We earn revenue primarily from the following activities:

- License revenue from sales of our EFT and Mail Express products that we deliver as either software installed at the customer’s premises, for which we earn the full amount of the license revenue at the time the license is delivered, or as a cloud-based service under our EFT Cloud Services brand delivered using a SaaS model, for which we earn monthly subscription revenue as these services are delivered over a contract period that is typically one year.
- License revenue from sales of our WAFS and CuteFTP products that are installed at the customer’s premises for which we earn the full amount of the license revenue at the time the license is delivered.
- M&S revenue under contracts to provide ongoing product support and software updates to our customers who have purchased license software which we recognize ratably over the contractual period, which is typically one year, but can be up to three years.
- Professional services revenue from a variety of customization, implementation, and integration services, as well as delivery of education and training associated with our solutions, which we recognize as the services are performed and accepted by the client.

We earn most of our revenue from the sale of our EFT platform products and the associated M&S and professional services related to those products. With our core competency being in products that address the managed file transfer market, we believe our EFT platform products provide the best opportunity for our future growth. Accordingly, expansion of the capabilities of the EFT platform will be our primary focus in the future. While we will continue to sell and support our other products for the foreseeable future, they will not be an area of emphasis for us going forward.

We believe that continuing to offer licensed products installed on-premises for which we recognize revenue up-front and that carry with them a recurring M&S revenue stream is important to our future success. At the same time, we recognize that a migration of capabilities to a SaaS platform is attractive to a growing number of customers. We have, and have had for quite some time, the capabilities in place to deliver our EFT platform in that manner. However, this migration could create some near-term decreases in the growth rate of license revenue, and may result in similar decreases in future periods, because it typically takes approximately 24 to 36 months of SaaS revenue to yield total revenue equivalent to that realized up-front from the sale of a license for an on-premise installation.

In mid-2016, we reviewed the allocation of our product research and development resources across all of our products. As a result of that review, we decided to adjust that allocation to focus most of our engineering resources involved in product research and development on our EFT platform products in order to expand their capabilities and to remain positioned to be responsive to the evolving needs of our customers.

Over the past few years, we have developed and offered individual product lines that include EFT, Mail Express, WAFS, scConnect and CuteFTP. Each of these product lines addresses distinct needs in the marketplace. While some customers purchase products from more than one of these product lines, for the most part, customers in a particular market or vertical have needs that are addressed by only one of these products and, therefore, purchase only that product. With respect to Mail Express and scConnect, while we will continue to offer them as stand-alone products for the time being, the engineering resources we allocate to these technologies will focus on migrating them to becoming an integrated component of our EFT platform. We do not expect to expend significant resources in the future on expanding the features and capabilities of WAFS and CuteFTP although we will continue to sell those products and support them.

To support product innovation, we continue to enhance our software engineering group and our focus on optimizing the manner in which we assess the development of new technologies, our approach to managing those projects, and the timelines over which we do that work. In continuing to develop our demand generation activities, we have made and continue to make ongoing changes in sales and marketing including:

Increasing sales staffing and capabilities as needed to address our markets.
Aligning our sales group to enhance its industry and geographic focus.
Implementing new sales and marketing campaigns.
Evolving our lead generation programs to increase our sales staff’s exposure to potential purchasers.
Enhancing our support of channel partners and engaging them to sell our products through training, orientation and marketing programs.

Our total revenue increased 15% in the 2016 quarter compared to the 2015 quarter and 9% in the 2016 nine months compared to the 2015 nine months. For a more complete discussion of these revenue trends, see *Comparison of the Statement of Operations for the Three Months Ended September 30, 2016 and 2015* and *Comparison of the Statement of Operations for the Nine Months Ended September 30, 2016 and 2015.*

Liquidity and Capital Resources

Our cash and working capital positions were as follows ($ in thousands):

	September 30, 2016	December 31, 2015	September 30, 2015
Cash and cash equivalents	$ 17,421	$ 15,885	$ 12,858
Short term investments	3,303	3,254	3,233
Total cash, cash equivalents and long term investments	$ 20,724	$ 19,139	$ 16,091
Working capital	$ 14,138	$ 11,162	$ 6,515
Deferred revenue, current portion	13,005	12,000	11,848
Working capital plus current deferred revenue (non-GAAP presentation)	$ 27,143	$ 23,162	$ 18,363

Deferred revenue, unlike the other liability components of our working capital, is an obligation we will satisfy by providing services in the future to our customers as part of our ongoing operating activities from which we have historically generated cash flow. Our deferred revenue does not involve a disbursement of cash as a direct payment of that liability. Accordingly, we assess our working capital using both the GAAP computation that includes all current liabilities as well as assessing it excluding the current portion of deferred revenue. Working capital plus the current portion of deferred revenue is not a measure of financial position under GAAP, has limitations as an analytical tool and when assessing our financial position and should not be considered a substitute for working capital computed in accordance with GAAP.

Our capital requirements principally relate to our need to fund our ongoing operating expenditures, which are primarily related to employee salaries and benefits. We make these expenditures to enhance our existing products, develop new products, sell those products in the marketplace and support our customers after the sale.

We rely on cash on hand and cash flows from operations to fund our operating activities and believe those items will be our principal sources of capital for the foreseeable future. If our revenue declines and/or our expenses increase, our cash flow from operations and cash on hand could decline. We plan to expend significant resources in the future for research and development of our products and expansion and enhancement of our sales and marketing activities. If sales decline or if our liquidity is otherwise under duress, we could substantially reduce personnel and personnel-related costs, reduce or substantially eliminate capital expenditures and/or reduce or substantially eliminate certain research and development and sales and marketing expenditures. We may also sell equity or debt securities or enter into credit arrangements in order to finance future acquisitions or licensing activities, to the extent available.

Cash provided or used by our various activities consisted of the following ($ in thousands):

	Cash Provided (Used) During the Nine Months Ended September 30,	
	2016	2015
Operating activities	$ 3,673	$ 3,429
Investing activities	(1,515)	(1,769)
Financing activities	(622)	(160)

Our cash provided by operating activities increased during the 2016 nine months compared to the 2015 nine months primarily due to the following factors:

Accounts payable decreased $217,000 during the 2016 nine months compared to decreasing $757,000 in the 2015 nine months. The change in the amount of the decrease was primarily due to the payment during the 2015 nine months of certain large obligations to third-party software developers which was not repeated in the 2016 nine months as a result of our increased use of internal resources to develop our products and normal variations in the timing of payments to our vendors.

Income tax receivable and payable increased $571,000 in the 2016 nine months compared to increasing $403,000 in the 2015 nine months. The change in the amount of the increase was a result of changes in the level of our taxable income between periods and normal variations in the timing of our tax payments.

Offset by:

Net income after considering adjustments to reconcile net income to net cash provided by operating activities, as set forth on our Condensed Consolidated Statements of Cash Flow, decreased $609,000. See the section below under *Comparison of the Statement of Operations for the Nine Months Ended September 30, 2016 and 2015* for a discussion of the changes in the components of these amounts.

Accounts receivable increased $2.8 million in the 2016 nine months which provided less cash than the $1.7 million increase in the 2015 nine months. This increase was due to an increase in software licenses sold and bookings of multi-year M&S contracts during the 2016 nine months as compared to the 2015 nine months.

The amount of cash we used for investing activities during the 2016 nine months decreased compared to the 2015 nine months with the primary component of that decrease relating to software development costs that were capitalized. This decrease was primarily due to:

Increased use of our employees as an internal resource to do this work in the 2016 nine months compared to the 2015 nine months when we relied more on the use of higher cost, third-party software developers.

Enhancement of relationships with those third-party developers we continue to use by replacing legacy arrangements carrying higher costs with more cost effective and efficient arrangements.

Shortages of qualified software engineers and qualified technical personnel that caused some of our open positions that arise during the normal course of business to take longer to fill.

Our financing activities used more cash in the 2015 nine months than the 2016 nine months primarily due to the payment of three cash dividends in the 2016 nine months compared to the payment of two cash dividends in the 2015 nine months.

Contractual Obligations and Commitments

At September 30, 2016, our contractual obligations and commitments consisted primarily of the following items:

An obligation to deliver services in the future to satisfy our right to earn our deferred revenue of $16.7 million. Those future services primarily relate to our obligations under M&S contracts for which we have invoiced our customers. We will recognize this deferred revenue as revenue over the remaining life of those contracts which generally ranges from one to three years. Deferred revenue, unlike the other liability components of our working capital, is an obligation we will satisfy through providing services in the future to our customers as part of our ongoing operating activities from which we have historically generated cash flow. Our deferred revenue does not involve a disbursement of cash as a direct payment of that liability.

Trade accounts payable and accrued liabilities which include our contractual obligations to pay software royalties to third parties that vary in amount based on our sales volume of products upon which royalties are payable.

Operating lease for our office space.

Federal and state taxes.

Our non-cancellable, contractual obligations at September 30, 2016, consisted primarily of the lease for our office space with amounts due as follows ($ in thousands):

	Amounts Due for the Period				
	Three Months Ending December 31, 2016	Fiscal Years 2017 - 2018	2019 - 2020	Thereafter	Total
Operating leases	$ 90	$ 720	$ 120	$ -	$ 930

As of September 30, 2016, we had no interest-bearing obligations in the form of loans, notes payable or similar debt instruments.

We plan to continue to expend significant resources in the future on product development, sales and marketing which may require that we enter into additional contractual arrangements and use our cash to acquire or license technology, intellectual property, products, services or businesses related to our current business strategy.

Comparison of the Statement of Operations for the Three Months Ended September 30, 2016 and 2015

	Three Months Ended September 30, 2016	2015	$ Change
		$ in thousands	
Total revenues	$ 8,753	$ 7,647	$ 1,106
Total cost of revenues	1,770	1,508	262
Gross profit	6,983	6,139	844
Operating expenses			
Sales and marketing	2,759	2,289	470
General and administrative	1,638	1,449	189
Research and development	528	646	(118)
Total operating expenses	4,925	4,384	541
Income from operations	2,058	1,755	303
Other income (expense), net	28	17	11
Income before income taxes	2,086	1,772	314
Income tax expense	687	542	145
Net income	$ 1,399	$ 1,230	$ 169

In the discussion below, we refer to the three months ended September 30, 2016, as the “2016 quarter” and the three months ended September 30, 2015, as the “2015 quarter”. The percentage changes cited in our discussions are based on the 2016 quarter amounts compared to the 2015 quarter amounts.

Revenue. The components of our revenues were as follows ($ in thousands):

	Three Months Ended September 30,			
	2016		2015	
	$ in thousands			
	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Type				
Software licenses	$ 3,373	38.6%	$ 2,852	37.3%
Maintenance and support	4,713	53.8%	4,142	54.2%
Professional services	667	7.6%	653	8.5%
Total Revenue	$ 8,753	100.0%	$ 7,647	100.0%
Revenue by Product				
EFT Enterprise and Standard	$ 8,212	93.8%	$ 6,905	90.3%
Wide Area File Services	209	2.4%	236	3.1%
CuteFTP	124	1.4%	240	3.1%
Other	208	2.4%	266	3.5%
Total Revenue	$ 8,753	100.0%	$ 7,647	100.0%

Trends in Revenue by Type

Software Licenses - Our software license revenue increased 18.3%. Most of this increase came from our sales of our EFT platform products and was a result of the following factors:

In mid-2016, we reviewed how we were allocating our resources across all of our product lines. Based on that review, we initiated changes that were in place throughout the 2016 quarter to enhance our focus on our EFT platform that is our flagship product and from which we earn a substantial portion of our revenue. While these changes initially prioritized attention to our product research and development activities, we identified corporate-wide synergies from a similar focus on how we were expending resources in our marketing and sales activities. As a result, the attention we paid to our EFT platform gained momentum across all departments resulting in our overall resources being more optimally used to translate sales leads into completed transactions and revenue for that product line. As a result, we realized 25.1% growth in revenue from our EFT platform perpetual license sales.

Revenue from delivery of our EFT platform through a cloud-based SaaS solution grew 52.8%. We achieved this growth by promoting our ability to offer the features and functions of our EFT platform through a SaaS delivery method without materially impacting our perpetual license sales. We believe this flexibility allows us to address the full range of users, whether they prefer a SaaS solution or an on-premises solution, without negatively compromising our ability to earn revenue from both.

We made an investment in early 2016 to enhance the talent level of our sales force. During the 2016 quarter, we began to realize the benefits of them completing their first full sales cycles of substance and converting our sales pipeline into revenue. These efforts, combined with the refocus on our EFT platform discussed above, allowed our sales and marketing teams to achieve greater efficiencies that led to increased revenue.

M&S Revenue – When we sell our licensed products, we also typically create a recurring revenue stream from M&S since almost all purchasers of our licensed products also purchase an M&S contract. In general and depending upon the level of M&S a customer purchases, this recurring revenue stream is 20% to 30% per year of the price of the underlying software license to which the M&S relates.

M&S revenue increased 13.8% primarily as a result of ongoing license sales for EFT Enterprise and Standard that are almost always accompanied by an M&S contract and sustained high renewal rates of M&S contracts by customers who initially purchased these services in earlier periods. We believe these renewal rates result from our programs designed to provide high-quality and responsive M&S service to our customers.

We typically experience a high renewal rate for M&S services for our enterprise products so long as a customer continues using the licensed product they purchased from us. Ongoing license revenue provides a foundation for future recurring revenue as the purchasers of our licensed products continually renew M&S agreements to support their ongoing product support needs. This pattern of activity can create a cumulative effect for M&S renewals as a result of the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this cumulative effect to continue yielding sustainable M&S revenue as we continue to sell our enterprise software products in future periods.

Our M&S contracts are typically for one year, with some customers buying two or three year contracts. The customer pays us the M&S fee for the entire term of the agreement at the time the contract begins. We recognize that amount as revenue ratably in future periods over the term of the contract.

Professional Services Revenue - Professional services revenue increased 2.1%. This increase was due to our sales and marketing programs designed to increase the frequency of sales of professional services and our enhanced focus on managing our queue of professional services projects so as to deliver our work product to our customers sooner and in-turn accelerate our ability to recognize revenue from these projects.

Trends in Revenue by Product

EFT Enterprise and Standard - We earn a substantial portion of our revenue selling our EFT platform products and providing M&S and professional services related to those products. We believe these products present the best opportunity for increasing our revenue. Our software license, M&S and professional services revenue from our EFT platform increased 18.9% for the reasons discussed above under *Trends in Revenue by Type*.

WAFS, CuteFTP and Other - The total of license and M&S revenue from WAFS decreased 11.4%, from CuteFTP decreased 48.3% and from other products decreased 21.8%. Revenue from these products is less than 10% of our total revenue, and we earn no significant professional services revenue from these products. These decreases in revenue were a result of our primary focus being on the development, marketing and sales of our EFT platform products as discussed above under *Solution Perspective and Trends*.

Cost of Revenues. These expenses are associated with the production, delivery and support of our products and services. We believe it most meaningful to view cost of revenues as a percent of the revenues to which those costs relate since many of those costs are variable relative to revenue.

Cost of license revenue consists primarily of:

- Amortization of capitalized software development costs we incur when producing our software products. This amortization begins when a product is ready for general release to the public.
- Royalties we pay to use software developed by others for certain features of our products.
- Fees we pay to third parties who provide services supporting our SaaS and cloud-based subscription solutions.

Cost of M&S revenue and cost of professional services revenue consist primarily of salaries and related costs of our employees and third parties we use to deliver these services.

Cost of software license revenue as a percent of software license revenue was 26% in the 2016 quarter compared to 20% in the 2015 quarter. This increase was the result of our release of new software products and new versions of existing products in periods subsequent to the 2015 quarter and the resulting commencement of amortizing the capitalized software development costs for those products. This additional expense amortization that began subsequent to the 2015 quarter increased cost of revenue in the 2016 quarter as compared to the 2015 quarter. On an absolute dollar basis, cost of revenue for software licenses increased 55% during the 2016 quarter due to the factors cited above and due to higher software license revenue.

Cost of M&S revenue as a percent of M&S revenue was substantially unchanged. Cost of revenue for M&S in absolute dollars increased by 6% due to an increase in M&S revenue. The cost of delivering M&S can vary slightly up or down from period-to-period, but we believe such changes are typically not indicative of long term trends or permanent changes in our cost of delivering M&S. Our gross margin on these services generally remains greater than 90% as a result of a consistent application of our customer support delivery protocols and practices.

Cost of professional services revenue as a percent of that revenue was 80% in the 2016 quarter as compared to 93% in the 2015 quarter. This variation resulted from the varying scope and mix of the professional services we deliver that can change from period-to-period in response to the circumstances of the customer environments in which we are working. Varying customer requirements for our professional services, combined with our desire to ensure that we maintain our high standard of delivering quality, timely services, caused us to engage third-party service providers to a greater extent in the 2015 quarter compared to the 2016 quarter, for which the cost is higher than the cost of using our own personnel. Cost of revenue for professional services in absolute dollars decreased 12% for the reasons discussed above.

Sales and Marketing. We believe it most meaningful to view cost of sales and marketing as a percent of revenues since many of those costs, particularly sales commissions, are variable relative to revenue. These expenses were 31.5% of total revenue for the 2016 quarter compared to 29.9% of total revenue for the 2015 quarter. In absolute dollars these expenses increased 21%. These variations were primarily due to:

- Increasing the size of our sales, marketing and product strategy teams and increased compensation rates due to competitive demands in the marketplace.
- Increasing marketing activities related to competitive intelligence and channel development.
- An increase in revenue which resulted in a higher absolute dollar amount of sales commissions paid to employees although the commission rate as a percent of sales did not change materially.

General and Administrative. These expenses increased 13% primarily due to a continuing severance obligation to our former chief executive officer and legal fees related to the matter discussed below in *Part II. Other Information Item 1. Legal Proceedings.*

Research and Development. The overall profile of our research and development activities was as follows ($ in thousands):

	Three Months Ended September 30,	
	2016	2015
R&D expenditures capitalized	$ 452	$ 506
R&D expenditures expensed	528	646
Total R&D expenditures (non-GAAP measurement)	$ 980	$ 1,152

Total research and development expenditures decreased 14.9% due to:

- Increased use of our employees as an internal resource to do this work in the 2016 quarter compared to the 2015 quarter when we relied more on the use of higher cost, third-party software developers.
- Enhancement of relationships with those third-party developers we continue to use by replacing legacy arrangements carrying higher costs with more cost effective and efficient arrangements.
- Shortages of qualified software engineers and qualified technical personnel that caused some of our open positions that arise during the normal course of business to take longer to fill.

Total resources expended for R&D set forth above as total R&D expenditures serves to illustrate our total corporate efforts to improve our existing products and to develop new products regardless of whether or not our expenditures for those efforts were expensed or capitalized. Total resources expended for R&D is not a measure of financial performance under GAAP and should not be considered a substitute for R&D expense and capitalized software development costs individually. While we believe the non-GAAP, total resources expended for R&D amount provides useful supplemental information regarding our overall corporate product improvement and new product creation activities, there are limitations associated with the use of this non-GAAP measurement. Total resources expended for R&D is a non-GAAP measure not prepared in accordance with GAAP and may not be comparable to similarly titled measures of other companies since there is no standard for preparing this non-GAAP measure. As a result, this non-GAAP measure of total resources expended for R&D has limitations and should not be considered in isolation from, or as a substitute for, R&D expense and capitalized software development cost individually.

Other Income (Expense), Net. The other expense (net) in both quarters consists primarily of interest income earned on long and short term investments.

Income Taxes. Our effective tax rate was 32.9% for the 2016 quarter and 30.6% for the 2015 quarter. These rates differed from a federal statutory tax rate of 34% primarily due to:

The domestic production activities deduction in both quarters, and the research and development credit, that are items considered in our federal income tax return that are not part of our income before taxes on our financial statements.

Offset by:

Certain expenses in our financial statements, such as a portion of meals and entertainment expenses, that are not deductible on our federal income tax return.
State income taxes included in income tax expense in our financial statements.

Our effective rate was higher in the 2016 quarter compared to the 2015 quarter primarily due to the research and development tax credit being lower in 2016 than 2015 and also the granting of only incentive stock options in 2016, for which we generally do not ever take a deduction on the tax return, as compared to the granting of only non-qualified stock options in 2015 for which we take a deduction on the tax return when the option is exercised.

Comparison of the Statement of Operations for the Nine Months Ended September 30, 2016 and 2015

	Nine Months Ended September 30,		
	2016	**2015**	**$ Change**
		$ in thousands	
Total revenues	$ 24,421	$ 22,390	$ 2,031
Total cost of revenues	5,137	3,965	1,172
Gross profit	19,284	18,425	859
Operating expenses			
Sales and marketing	8,453	7,060	1,393
General and administrative	5,083	4,629	454
Research and development	1,727	1,832	(105)
Total operating expenses	15,263	13,521	1,742
Income from operations	4,021	4,904	(883)
Other income (expense), net	88	51	37
Income before income taxes	4,109	4,955	(846)
Income tax expense	1,348	1,585	(237)
Net income	$ 2,761	$ 3,370	$ (609)

In the discussions below, we refer to the nine months ended September 30, 2016, as the "2016 nine months" and the nine months ended September 30, 2015, as the "2015 nine months". The percentage changes cited in our discussions are based on the 2016 nine month amounts compared to the 2015 nine month amounts.

The components of our revenues were as follows ($ in thousands):

	Nine Months Ended September 30,			
	2016		2015	
	$ in thousands			
	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Type				
Software licenses	$ 8,565	35.1%	$ 8,590	38.4%
Maintenance and support	13,843	56.7%	12,269	54.8%
Professional services	2,013	8.2%	1,531	6.8%
Total Revenue	$ 24,421	100.0%	$ 22,390	100.0%
Revenue by Product				
EFT Enterprise and Standard	$ 22,678	92.9%	$ 19,983	89.2%
Wide Area File Services	658	2.7%	764	3.4%
CuteFTP	480	2.0%	665	3.0%
Other	605	2.4%	978	4.4%
Total Revenue	$ 24,421	100.0%	$ 22,390	100.0%

Trends in Revenue by Type

Software Licenses - Software license revenue decreased 0.3%. Most of this change was driven by our sales of our EFT platform products and was a result of the following factors

During the six months ended June 30, 2016, we reviewed how we had been allocating our product research and development resources across all of our products. We determined that we had been allocating resources to the development of our EFT platform at a level less than that necessary to allow our sales and marketing activities to continue to yield growth in license revenue from that product during the six months ended June 30, 2016. As a result, software license revenue decreased 9.5% for this period as compared to the six months ended June 30, 2015.

Based on the review described above, we initiated changes that were in place throughout the 2016 quarter to enhance our focus on our EFT platform that is our flagship product and from which we earn a substantial portion of our revenue. While these changes initially prioritized attention to our product research and development activities, we identified corporate-wide synergies from a similar focus on how we were expending resources in our marketing and sales activities. Our enhanced attention to our EFT platform gained momentum across all departments resulting in our overall resources being more optimally used to translate sales leads into completed transactions and revenue for that product line. As a result, we realized 25.1% growth in revenue from our EFT platform perpetual license sales during the 2016 quarter which substantially offset the decrease in software license revenue for first six months of 2016 yielding the 0.3% decrease in software license revenue for the 2016 nine months.

Revenue from delivery of our EFT platform through a cloud-based SaaS solution grew 39.3%. The dollar amount of this revenue is not yet material to our total revenue. We achieved this growth by promoting our ability to offer the features and functions of our EFT platform through a SaaS delivery method without materially impacting our perpetual license sales. We believe this flexibility allows us to address the full range of users, whether they prefer a SaaS solution or an on-premises solution, without negatively compromising our ability to earn revenue from both.

We made an investment in early 2016 to enhance the talent level of our sales force. During the 2016 nine months, we began to realize the benefits of them completing their first full sales cycles of substance and converting our sales pipeline into revenue. These efforts, combined with the refocus on our EFT platform discussed above, allowed our sales and marketing teams to achieve greater efficiencies that led to increased revenue.

M&S Revenue – When we sell our licensed products, we also typically create a recurring revenue stream from M&S since almost all purchasers of our licensed products also purchase an M&S contract. In general and depending upon the level of M&S a customer purchases, this recurring revenue stream is 20% to 30% per year of the price of the underlying software license to which the M&S relates.

M&S revenue increased 12.8% primarily as a result of ongoing license sales for EFT Enterprise and Standard that are almost always accompanied by an M&S contract and sustained high renewal rates of M&S contracts by customers who initially purchased these services in earlier periods. We believe these renewal rates result from our programs designed to provide high-quality and responsive M&S service to our customers.

We typically experience a high renewal rate for M&S services for our enterprise products so long as a customer continues using the licensed product they purchased from us. Ongoing license revenue provides a foundation for future recurring revenue as the purchasers of our licensed products continually renew M&S agreements to support their ongoing product support needs. This pattern of activity can create a cumulative effect for M&S renewals as a result of the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this cumulative effect to continue yielding sustainable M&S revenue as we continue to sell our enterprise software products in future periods.

Our M&S contracts are typically for one year, with some customers buying two or three year contracts. The customer pays us the M&S fee for the entire term of the agreement at the time the contract begins. We recognize that amount as revenue ratably in future periods over the term of the contract.

Professional Services Revenue - Professional services revenue increased 31.5% due to our sales and marketing programs designed to increase the frequency of sales of professional services and our enhanced focus on managing our queue of professional services projects so as to deliver our work product to our customers sooner and in-turn accelerate our ability to recognize revenue from these projects.

Trends in Revenue by Product

EFT Enterprise and Standard - We earn a substantial portion of our revenue from selling our EFT platform products and providing M&S and professional services related to those products. We believe these products present the best opportunity for increasing our revenue. Our software license, M&S and professional services revenue from our EFT platform increased 13.5% for the reasons discussed above under *Trends in Revenue by Type*.

WAFS, CuteFTP and Other - The total of license and M&S revenue from WAFS decreased 13.9%, from CuteFTP decreased 27.8% and from other products decreased 38.1%. Revenue from these products is less than 10% of our total revenue, and we earn no significant professional services revenue from these products. These decreases in revenue were a result of our primary focus being on the development, marketing and sales of our EFT platform products as discussed above under *Solution Perspective and Trends*.

Cost of Revenues. These expenses are associated with the production, delivery and support of the products and services we sell. We believe it most meaningful to view cost of revenues as a percent of the revenues to which those costs relate since many of those costs are variable relative to revenue.

Cost of license revenue consists primarily of:

- Amortization of capitalized software development costs we incur when producing our software products. This amortization begins when a product is ready for general release to the public.
- Royalties we pay to use software developed by others for certain features of our products.
- Fees we pay to third parties who provide services supporting our SaaS and cloud-based subscription solutions.

Cost of M&S revenue and cost of professional services revenue consist primarily of salaries and related costs of our employees and third parties we use to deliver these services.

Cost of software license revenue as a percent of software license revenue was 27% in the 2016 nine months compared to 19% in the 2015 nine months. This increase were a result of our release of new software products and new versions of existing products in periods subsequent to the 2015 nine months and the commencement of amortizing the capitalized software development costs for those products. This additional expense amortization that began subsequent to the 2015 nine months increased cost of revenue in the 2016 nine months as compared to the 2015 nine months. On an absolute dollar basis, cost of revenue for software licenses increased 39% during the 2016 quarter due to the factors cited above and due to higher software license revenue.

Cost of M&S revenue as a percent of M&S revenue was substantially unchanged. Cost of revenue for M&S in absolute dollars increased by 8% due to an increase in M&S revenue. The cost of delivering M&S can vary slightly up or down from period-to-period, but we believe such changes are typically not indicative of long term trends or permanent changes in our cost of delivering M&S. Our gross margin on these services generally remains greater than 90% as a result of a consistent application of our customer support delivery protocols and practices.

Cost of professional services revenue as a percent of that revenue was 84% in the 2016 nine months as compared to 82% in the 2015 nine months. This variation resulted from the varying scope and mix of the professional services we deliver that can change from period-to-period in response to the circumstances of the customer environments in which we are working. Varying customer requirements for our professional services, combined with our desire to ensure that we maintain our high standard of delivering quality, timely services, caused us to engage third-party service providers to a greater extent in the 2016 nine months compared to the 2015 nine months for which the cost is higher than the cost of using our own personnel. Cost of revenue for professional services in absolute dollars decreased 34% for the reasons discussed above.

Sales and Marketing. We believe it most meaningful to view cost of sales and marketing as a percent of revenues since many of those costs, particularly sales commissions, are variable relative to revenue. These expenses were 35% of total revenue for the 2016 nine months compared to 32% of total revenue for the 2015 nine months. In absolute dollars these expenses increased 20%. These variations were primarily due to:

- Increasing the size of our sales, marketing and product strategy teams and increased compensation rates due to competitive demands in the marketplace.
- Increasing marketing activities related to competitive intelligence and channel development.
- An increase in revenue which resulted in a higher absolute dollar amount of sales commissions paid to employees although the commission rate as a percent of sales did not change materially.

General and Administrative. These expenses increased 10%. Our chief executive officer resigned during the 2016 nine months. The severance arrangement related to this resignation included a modification of certain stock options held by him to accelerate their vesting and to extend the period during which they can be exercised and also ongoing severance payments. The stock option modification resulted in a one-time share-based compensation expense. That expense and the ongoing severance payments and legal costs was the primary cause of the increase in this expense. Our legal fees also increased due to the matter discussed below in *Part II. Other Information Item 1. Legal Proceedings*.

Research and Development. The overall profile of our research and development activities was as follows ($ in thousands):

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
R&D expenditures capitalized	$ 1,298	$ 1,613
R&D expenditures expensed	1,727	1,832
Total R&D expenditures (non-GAAP measurement)	$ 3,025	$ 3,445

Total research and development expenditures decreased 12.2% due to:

- Increased use of our employees as an internal resource to do this work in the 2016 nine months compared to the 2015 nine months when we relied more on the use of higher cost, third-party software developers.
- Enhancement of relationships with those third-party developers we continue to use by replacing legacy arrangements carrying higher costs with more cost effective and efficient arrangements.
- Shortages of qualified software engineers and qualified technical personnel that caused some of our open positions that arise during the normal course of business to take longer to fill.

Total resources expended for R&D set forth above as total R&D expenditures serves to illustrate our total corporate efforts to improve our existing products and to develop new products regardless of whether or not our expenditures for those efforts were expensed or capitalized. Total resources expended for R&D is not a measure of financial performance under GAAP and should not be considered a substitute for R&D expense and capitalized software development costs individually. While we believe the non-GAAP, total resources expended for R&D amount provides useful supplemental information regarding our overall corporate product improvement and new product creation activities, there are limitations associated with the use of this non-GAAP measurement. Total resources expended for R&D is a non-GAAP measure not prepared in accordance with GAAP and may not be comparable to similarly titled measures of other companies since there is no standard for preparing this non-GAAP measure. As a result, this non-GAAP measure of total resources expended for R&D has limitations and should not be considered in isolation from, or as a substitute for, R&D expense and capitalized software development cost individually.

Other Income (Expense), Net. The other expense (net) in both quarters consists primarily of interest income earned on long and short term investments.

Income Taxes. Our effective tax rate was 32.8% for the 2016 nine months and 32.0% for the 2015 nine months. These rates differed from a federal statutory tax rate of 34% primarily due to:

- The domestic production activities deduction in both quarters, and the research and development credit in the 2016 nine months only, that are items considered in our federal income tax return that are not part of our income before taxes on our financial statements.

Offset by:

- Certain expenses in our financial statements, such as a portion of meals and entertainment expenses, that are not deductible on our federal income tax return.
- State income taxes included in income tax expense in our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have not utilized derivative financial instruments or derivative commodity instruments. We do not expect to employ these or other strategies to hedge market risk in the foreseeable future. We may invest our cash in money market funds which are subject to minimal credit and market risk. We believe that the interest rate risk and other relevant market risks associated with these financial instruments are immaterial.

During the three months ended September 30, 2016 we earned approximately 17% of our revenue from a single third party, channel distributor who purchases products from us and resells them to their customers. During the three months ended September 30, 2015 there was no single customer that exceeded 10% of sales. During the nine months ended September 30, 2016, and the nine months ended September 30, 2015, we earned approximately 14% and 10%, respectively, of our revenue from a single third party, channel distributor who purchases products from us and resells them to their customers. Approximately 40% of our accounts receivable as of September 30, 2016, were due from this customer and from one other customer, the latter of which did not constitute more than 10% of our revenue. Payment for substantially all such amounts has been received subsequent to that date.

We earned approximately 17% and 22% of our revenue from customers outside the United States during the three months ended September 30, 2016, and the three months ended September 30, 2015 respectively. We earned approximately 22% and 24% of our revenue from customers outside the United States during the nine months ended September 30, 2016, and the nine months ended September 30, 2015 respectively. We receive all revenue in U.S. dollars, so we have no material exchange rate risk with regard to the sales. We charge Value Added Taxes to our non-business customers in the European Union. We remit these taxes periodically in pound sterling. The impact of this currency translation has not been material to our business.

Item 4. Controls and Procedures

As of the end of the period covered by this report, our President and Chief Executive Officer and our Chief Financial Officer carried out an evaluation of the effectiveness of GlobalSCAPE's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) and concluded that the disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting during the nine months ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

GlobalSCAPE has been named as one of a number of defendants in a patent infringement suit filed by Digital Reg of Texas, LLC in the United States District Court for the Eastern District of Texas. The complaint alleges that we infringed a patent that regulates access to digital content. In a previous lawsuit this plaintiff brought asserting infringement of this patent against Adobe Systems Inc., several of the claims of this patent were found to be invalid, a decision which Digital Reg appealed to the Federal Circuit. The case against us was stayed until resolution of that appeal. On April 8, 2016, the Federal Circuit confirmed the prior finding that several of the claims of Digital Reg's patent were invalid. The stay has now been lifted in the suit against us and we have filed a Motion to Dismiss the case based on the findings of the Federal Circuit. We are currently waiting on the court to rule on our Motion to Dismiss. While we are early in this process such that it is not possible to reasonably determine the outcome of this lawsuit with any certainty, we believe any loss we could incur would be immaterial to our financial position and results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2015 Form 10-K filed with the Securities and Exchange Commission on March 3, 2016. These risk factors could materially affect our business, financial condition or future results, but they are not the only risks facing GlobalSCAPE. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

Item 6. Exhibits

(a) Exhibits

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Interactive Data File.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLOBALSCAPE, INC.

November 10, 2016	By: /s/ James W. Albrecht, Jr.
Date	James W. Albrecht, Jr. Chief Financial Officer

EXHIBIT 31.1

CERTIFICATIONS

I, Matthew C. Goulet, certify that:

1. I have reviewed this quarterly report on Form 10-Q of GlobalSCAPE, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 10, 2016

/s/ Matthew C. Goulet

Matthew C. Goulet
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, James W. Albrecht, Jr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of GlobalSCAPE, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2016

/s/ James W. Albrecht, Jr.

James W. Albrecht, Jr.
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of GlobalSCAPE, Inc. on Form 10-Q for the period ending September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Matthew C. Goulet, Chief Executive Officer and James W. Albrecht, Jr., Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of GlobalSCAPE, Inc.

November 10, 2016

/s/ Matthew C. Goulet
Matthew C. Goulet
President and Chief Executive Officer

/s/ James W. Albrecht, Jr.
James W. Albrecht, Jr.
Chief Financial Officer